

# THE DEPOSITORY TRUST COMPANY

# IMPORTANT

**B#:** 1744

**DATE:** September 15, 1997

**TO:** All Participants

**FROM:** Valentine Stevens, Group Director  
Product Management

**ATTENTION:** Managing Partner/Officer; Cashier; and Operations Managers

**SUBJECT:** Letters of Free Funds over the Participant Exchange Service.  
A new function to be added to PEX enabling brokers to electronically exchange Letters of Free Funds.

**Effective September 29, Letters of Free Funds (LOFFS) may be sent through the Participant Exchange Service (PEX) via PTS.** DTC is projecting that, by year end, Participants will be able to exchange LOFFs over CCF and MDH.

Currently, a large number of LOFFs are exchanged through mail or fax facilities. The new service automates this process by incorporating LOFFs within PEX, thereby eliminating the manual paper delivery/response process and providing Participants with a more timely and accurate messaging vehicle for these documents. At the same time, DTC offers a means of tracking these notices over a period of time.

#### Action Required

If you do not have a password linked to PEX, complete and return the attached LOFFs User Update Request form. If you already have been activated as a PEX user, return the form with the printer destination for LOFFs reports. All current PEX users will automatically have LOFFs capability.

Participants wishing to use this capability should complete the attached form with all the requested information and **return it to their Participant Services representative by September 22.** Participants that have signed up to use PEX to specifically transmit LOFFs will be listed in

DTC's Reference Directory.

LOFFs are notices exchanged between the receiving and delivering brokers on Deliver vs Payment (DVP) trades. The delivering broker forwards a LOFF to the receiving broker requiring it to verify the existence of sufficient funds for settling the trades in question. The receiving broker confirms if funds are available and returns the letter to the delivering broker.

### Overview of PEX

The Participant Exchange Service (PEX) enables a broker to electronically deliver (send) various types of notices to other brokers, as well as respond to notices that it receives. PEX assigns unique control numbers to all of the notices sent, allows free-form comments on all notices, and permits brokers to route messages by notice type. The system assigns a ten character control number, which can be used to track the notice.

### How Brokers Will Exchange LOFFs

To enter LOFFs using the PTS, a broker can use the 'PEXM' Function and select the new option, '19' (LETTERS of FREE FUNDS), from the menu of notices types available within PEX. The broker can then enter all of the required data on the notice entry screen. Once the screen data is edited and the broker presses the update key, the data will be stored on a database.

Using PTS, the receiving broker can reply to LOFFs through the 'PEXR' Function. The receiving broker can view a listing of LOFFs by pressing PF2 from the PEXR Main Menu. LOFF notices will not be commingled with other PEX notices. After its review, the receiving broker may acknowledge sufficient funds for the trade described in the incoming notice by keying in a '1'. To notify the deliverer that there are insufficient funds for the trade a '2' must be keyed in on or after Settlement Date. A '3' would indicate the existence of a Prime Broker relationship with the delivering broker. To indicate that the notice contains an error a '4' needs to be used. If a broker chooses to reject the notice, it can provide a reason for this rejection by keying in a reason code. The database will be updated and a printed advice will be sent to both the originator and receiver of the LOFF.

### How Brokers Will Receive Notification

Letters of Free Funds **requests** will not generate tickets. The receiving broker will be able to identify newly received and redelivered items via the browse command in the PTS Function 'PEXR', where all items received or redelivered today will be highlighted.

### Historical Database

All open LOFFs will be kept on a database for ninety days from the notice's initial send date. Open items are available for browsing and reply. Notices that have been accepted (funds available) will remain on the database for 2 days. Notices that have been declined (unavailable funds) will remain on the database for 5 days. All other replied-to letters, (Prime Broker or error), will be aged off the database 30 days after the initial send date of the notice.

### Manual and Automatic Re-delivery of Open LOFFs

Through PTS, the delivering broker will be provided a means to redeliver an outstanding letter

without re-entering the data. Additionally, the open-letter database will be scanned daily and will automatically redeliver all open letters that have not been manually redelivered every five DTC business days. The system will maintain a count of the times the same letter was re-delivered and the last re-delivery date. This information will be available to both parties on a PTS inquiry screen.

#### Cutoff Times

The cutoff time for delivering brokers to send a receiving broker a LOFF via PTS is 4:00 p.m. EST.

The cutoff time for receiving brokers to reply to the letter via PTS is 5:15 p.m. EST.

#### End of Month Activity Reports

Monthly hard-copy reports will be generated for both receivers and deliverers. These reports will contain LOFFs that have expired during the month. This includes:

- open items that are over 90 days old
- FA (funds available) items that were responded to during the month
- FNA (funds not available) items that are over 5 days old
- PRM (prime broker) items that are over 30 days old
- ERR (erroneous) items that are over 30 days old

The reports will be sorted on status, contra-participant, and initial send date. They will contain detailed information on each letter being reported on.

Detailed PTS procedures on how to use PEX to transmit LOFFs are attached.

Questions may be directed to your Participant Services representative.

**LOFFs User Information Request Form**

The Depository Trust Company

Participant Services

55 Water Street

New York, New York 10041

Fax: (212) 855-4114

Participant Name

\_\_\_\_\_

Participant Number

\_\_\_\_\_

Participant Services Representative

\_\_\_\_\_

LOFFs Contact  
Name \_\_\_\_\_

Telephone  
Number \_\_\_\_\_

I. LOFFs user

Participant Name \_\_\_\_\_, Participant Number  
\_\_\_\_\_, would like to be listed in DTC's Eligible Securities booklet as a  
LOFFs user.

II. Sign-ons

Please add the PEXM function to the following

Participant Number  
(Sign-On ID #)

Individual User #  
(e.g., 01, 02, 03, etc.)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

III. Printers

Printer destination for LOFF tickets and reports (if other than 00)

(Printer #)

\_\_\_\_\_

\_\_\_\_\_

Authorized Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

**LOFFs User Information Request Form**

The Depository Trust Company

Participant Services

55 Water Street

New York, New York 10041

Fax: (212) 855-4114

Participant Name \_\_\_\_\_

Participant Number \_\_\_\_\_

Participant Services Representative \_\_\_\_\_

LOFFs Contact Name \_\_\_\_\_

Telephone Number \_\_\_\_\_

**I. LOFFs user**

Participant Name \_\_\_\_\_, Participant Number \_\_\_\_\_  
would like to be listed in DTC's Eligible Securities booklet as a LOFFs user.

**II. Sign-ons**

Please add the PEXM function to the following

Participant Number  
(Sign-On ID #)

Individual User #  
(e.g., 01, 02, 03, etc.)

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**III. Printers**

Printer destination for LOFF tickets and reports (if other than 00)

(Printer #)

\_\_\_\_\_  
\_\_\_\_\_

Authorized Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_



### 7.15.15 Letters of Free Funds

#### Overview

The Letters of Free Funds option allows broker Participants to send Letters of Free Funds to other broker Participants.

A ticket is generated at the delivering and receiving Participants' printers upon response to the letter.

**Note:** The cutoff time for sending a Letter of Free Funds is 4:00 p.m. Eastern Standard Time.



7.15.15.1 How to Enter Letters of Free Funds

- | Step   | Action  |
|--------|---|
| Step 1 | Enter Option 19 (Letters of Free Funds) in the Select Desired Message Screen field.                       |
| Step 2 | Press the 'ENTER' key to obtain the Participant Exchange Service Letters of Free Funds Screen (Figure 1). |

### 00002199 - 99	PARTICIPANT EXCHANGE SERVICE LETTERS OF FREE FUNDS	MM/DD/YY HH:MM:SS
DELIVERING BROKER :	2199	RECEIVING BROKER : DTC TEST
DELIVERER ACCT# :		RECEIVER ACCT # :
ACCT NAME :		
QUANTITY :	AMOUNT :	
CUSIP :	DESCRIPTION:	
TRADE ID#:	TRADE DATE :	SETTLE DATE:
COMMENTS :		
CALL NAME:	PHONE NUM: - -	EXT:
PF1/13 = UPDATE		

Figure 1. Participant Exchange Service Letters of Free Funds Screen

- Step 3 Enter information in the following fields of the Participant Exchange Service - Letter of Free Funds Screen:
- Delivering Broker: the Participant number of the firm initiating the letter (Group Users only).
  - Receiving Broker: the Participant number of the firm that must respond to the letter.
  - Deliverer Acct #: the delivering firm's account number
  - Receiver Acct #: the receiving firm's account number.
  - Acct Name: the name of the account.



7.15.15.1 How to Enter Letters of Free Funds (continued)

**Note:** The Deliverer Acct #, Receiver Acct # and Account Name fields are required. However, the information in these fields is not validated.

- **Quantity:** the number of shares for the transaction; enter up to 12 whole and 5 fractional places. The maximum value is 9999999999.9999
- **Amount:** the dollar value of the transaction up to 12 integer (dollar) and 2 decimal (cent) places are allowed.
- **CUSIP:** the CUSIP number.

**Note:** Both DTC-eligible and non-eligible CUSIPs can be entered.

- **Description:** the description if the issue is not DTC-eligible; this is generated for DTC-eligible issues.
- **Trade ID #:** the identification number of the trade.

**Note:** The Trade ID # is required but not validated.

- **Trade Date:** the trade date in MMDDYY format. Any valid trade date will be accepted.
- **Settle Date:** the settlement date in MMDDYY format. Any valid date greater than the Trade Date will be accepted.
- **Comments:** freeform comments (optional).
- **Call Name:** the contact name at the delivering Broker's firm.
- **Phone Num (Ext):** the phone number of the contact with extension

**Note:** The Call Name and Phone Num (Ext) fields are required but not validated.



**7.15.15.1 How to Enter Letters of Free Funds (continued)**

**Step 4** Press the ENTER key to verify.

or

Press the 'PF1/13' key to send.

**Step 5** Press any of the following:

- 'PF7/19' key to return to the Participant Exchange Service Menu Screen.
- 'PF8/20' key to change the function.
- 'PF9/21' key to end the processing session.



7.16.13 Letters of Free Funds

- Step**      **Action**
- 
- Step 1      Press the 'PF2/14' key on the Participant Exchange Service - Inquiry/Reply Menu Screen to obtain the Participant Exchange Service LOFF Browse/Reply Screen (Figure 1).

PARTICIPANT EXCHANGE SERVICE						
LOFF BROWSE/REPLY SCREEN						MM/DD/YY
SIGNON PT 2199		DTC TEST PART		CONTRA PT: 2198		HH:MM:SS
RCV/DEL: R	CURRENT LET.	STATUS:		CNTRL#		
ACCOUNT#	TRADE#:	GLOBAL AUTHORITY				
S/R/X	ACCOUNT#	DLVR	CONTROL#	TRADE-ID#	STATUS	INIT.DATE
	112030122	2193	1234567890	123456789012345		070197
R	1213211211	2193	4545454544	94847847433	FA	070297
	1318336613	2193	8547948444	88040898480408	ERR	070197

PF11/23=FORWARD SCRL PF10/22=BACKWARD SCRL PF12/24=SELECT PF6/18=SELECT ALL  
PF1/13=UPDATE

Figure 1. Participant Exchange Service LOFF Browse/Reply Screen.

**To Acknowledge Free Funds Available for all line items (Receivers only):**

- Step 2      Enter information in the following fields:
- Global Authority: enter Y to acknowledge funds are available for the items on the current screen.
  - S/R/X: enter X next to a specific letter to exclude it from being acknowledged.

**Note:** To view a specific letter, refer to Section 7.17, PEXB.

- Step 3      Press the 'PF12/24' to process the transaction.
- Step 4      Press any of the following:

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7.16.13 Letters of Free Funds (continued)

- 'PF7/19' key to return to the Participant Exchange Service Inquiry/Reply Menu Screen.
- 'PF8/20' key to change the function.
- 'PF9/21' key to end the processing session.
- 'PF10/22' key to scroll backward.
- 'PF11/23' key to scroll forward.
- 'PF12/24' key to return to the Participant Exchange Service LOFF Browse/Reply Screen.

To Reply to a letter (Receivers only):

- Step 5** Enter R in the S/R/X field next to the Letter you wish to reply to.
- Step 6** Press the 'PF12/24' key to access the Participant Exchange Service Reply Screen (Figure 2).

####/####	PARTICIPANT EXCHANGE SERVICE	MM/DD/YY
00002199-99		HH:MM:SS
CONTROL NUMBER :	INITIAL SEND DATE :	
LAST DELIVERY DATE:	# OF RE-DELIVERIES:	
DELIVERING BKR:	RECEIVING BKR:	
DELIVERER ACCT#:	RECEIVER ACCT #:	
ACCT NAME:		
QUANTITY :	AMOUNT :	
CUSIP :	DESCRIPTION:	
TRADE ID#:	TRADE DATE :	SETTLE DATE:
COMMENTS :		
CALL NAME:	PHONE NUM: -	EXT:
ENTER :	(1=FUNDS AVAIL 2=FUNDS NOT AVAIL 3=PRIME BROKER 4=ERROR)	
REASON CODE:	REPLY COMMENTS:	
CALL NAME:	PHONE NUM: -	EXT:
PFKEYS: 1/13=REPLY	7/19=MENU	8/20=END 9/21=SIGNOFF 11/23=SCRL FWD 12/24=RET

Figure 2. Participant Exchange Service Reply Screen.

- Step 7** Enter information in the following fields:

- Enter: enter one of the following Response Codes:

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7.16.13 Letters of Free Funds (continued)

- 1: to acknowledge Funds Available.
- 2: to decline the letter due to Funds Not Available.
- 3: to indicate Prime Broker Relationship with the deliverer.

**Note:** When 3 is entered, a fax number must be entered in the Reply Comments field.

- 4: to indicate that the letter contains erroneous information.

**Note:** When 4 is entered, a Reason Code must be entered in the Reason Code field.

- Reason Code: enter one of the following:
  - 001: need better account number.
  - 002: need better account name.
  - 003: broker dealer credit account.
  - 004: custodial account.
  - 005: trade not known.
  - 006: other (with reply comments).
- Reply Comments: enter comments in freetext; required for Response Code 3 and Reason Code 006.
- Call Name: contact name at the receiver; required for Response Codes 3 and 4.
- Phone Num (Ext): contact phone number at the receiver; required for Response Codes 3 and 4.

**Step 8** Press the 'PF1/13' key to send.

**Note:** The next open letter is displayed. Repeat Steps 7 and 8 to reply to it or press the 'PF11/23' key to access the next letter without replying.

**Step 9** Press any of the following:

- 'PF7/19' key to return to the Participant Exchange Service Inquiry/Reply Menu Screen.
- 'PF8/20' key to change the function.
- 'PF9/21' key to end the processing session.

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7.16.13 Letters of Free Funds (continued)

- 'PF11/23' key to browse forward.
- 'PF12/24' key to return to the Participant Exchange Service Browse Screen.

To Cancel an Open Letter (Deliverers only):

Step 10 Enter D in the Rcv/Del field to access the Participant Exchange Service LOFF Browse/Reply Screen with Deliverer's fields (Figure 3).

PARTICIPANT EXCHANGE SERVICE						
LOFF BROWSE/REPLY SCREEN						MM/DD/YY
SIGNON	PT	DTC	TEST	PART	CONTRA	PT: 2198
RCV/DEL: D	CURRENT	LET.	STATUS:	GLOBAL	CNTRL#	HH:MM:SS
ACCOUNT#	TRADE#:	GLOBAL	AUTHORITY			
S/C/M	ACCOUNT#	DLVR	CONTROL#	TRADE-ID#	STATUS	INIT.DATE
C	112030122	2193	1234567890	123456789012345	FA	070197
	1213211211	2193	4545454544	94847847433	FA	070297
	1318336613	2193	8547948444	88040898480408	ERR	070197

PF11/23=FORWARD SCRL PF10/22=BACKWARD SCRL PF12/24=SELECT PF6/18=SELECT ALL  
PF1/13=UPDATE PF2/14=DEFAULT

Figure 3. Participant Exchange Service LOFF Browse/Reply Screen displaying Deliverer's fields.

Step 11 Enter C in the S/C/M field next to the letters you wish to cancel.

Note: only open letters can be canceled.

Step 12 Press the 'PF12/24' key to access the Participant Exchange Service Reply Screen displaying the letter to be canceled.

Step 13 Press the 'PF1/13' key to confirm the cancel.



7.16.13 Letters of Free Funds (continued)

**Note:** The next open letter appears on the Participant Exchange Service Reply Screen. Repeat Step 12 to cancel it or press the 'PF11/23' key to access the next open letter without canceling

**Step 14** Press any of the following:

- 'PF7/19' key to return to the Participant Exchange Service Inquiry/Reply Menu Screen.
- 'PF8/20' key to change the function.
- 'PF9/21' key to end the processing session.
- 'PF11/23' key to scroll forward.
- 'PF12/24' key to return to the Participant Exchange Service LOFF Browse/Reply Screen.

**To Resend an Open Letter (Deliverers only):**

**Step 15** On the Participant Exchange Service LOFF Browse/Reply Screen (Figure 3), enter M in the S/C/M field next to the letters you wish to resend.

**Note:** Only open letters can be resent.

**Step 16** Press the 'PF1/13' key to access the Participant Exchange Service - Letters of Free Funds Resend Screen with the first open letter displayed (Figure 4).





7.16.13 Letters of Free Funds (continued)

Tickets:

After completion of a reply, tickets are generated and routed to the sending Participant and receiving Participant. Figure 5 is an example of a Letters of Free Funds Reply Ticket.

```
o 0000021990-00001 PARTICIPANT EXCHANGE SERVICE MM/DD/YY o
o LETTERS OF FREE FUNDS HH:MM:SS o
o CONTROL#: 141425TX34 PTS ID: 00002199-01 o
o
o FUNDS ARE AVAILABLE o
o
o REPLY COMMENTS: o
o
o CALL: R. SMITH TELEPHONE: 212-111-1111 EXT: 1111 o
o ***** o
o DELIVERING BROKER: TEST BKR PART NO: 2199 o
o RECEIVING BROKER: TEST BRK 2 PART NO: 2198 o
o ACCOUNT #: DELVR: XXXXXXXXXXXXXXXXXXXX RCVR: XXXXXXXXXXXXXXXXXXXX o
o
o QUANTITY: 1,000.113 AMOUNT: 9999999999.99 o
o CUSTIP NUMBER: 459200101 SECURITY DESCRIPTION: XXXXXXXXXXXXXXXX o
o
o TRADE ID # XXXXXXXXXXXXXXXXXXXX TRADE DATE MM/DD/YY SETT DATE: MM/DD/YY o
o CALL: T. THOMPSON PHONE NO: (212) 456-7875 o
o
o
o COMMENTS: THESE ARE THE SAMPLE COMMENTS THE DELIVERING BROKER WOULD ENTER o
```

Figure 5. Letters of Free Funds Reply Ticket

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7.17.13 Letters of Free Funds

- Step**      **Action**
- 
- Step 1**      Press the 'PF2/14' key on the Participant Exchange Service - Inquiry/Reply Menu Screen to obtain the Participant Exchange Service LOFF Browse/Reply Screen (Figure 1).

####		PARTICIPANT EXCHANGE SERVICE				MM/DD/YY	
000002199-99		LOFF BROWSE/REPLY SCREEN				HH:MM:SS	
SIGNON	PT 2199	DTC TEST PART	CONTRA PT: 2198				
RCV/DEL: R		CURRENT LET.	STATUS:	CNTRL#			
ACCOUNT#		TRADE#:	GLOBAL AUTHORITY				
S/R/X	ACCOUNT#	DLVR	CONTROL#	TRADE-ID#	STATUS	INIT.DATE	
S	112030122	2193	1234567890	123456789012345		070197	
	1213211211	2193	4545454544	94847847433	FA	070297	
	1318336613	2193	8547948444	88040898480408	ERR	070197	

PF11/23=FORWARD SCRL PF10/22=BACKWARD SCRL PF12/24=SELECT PF6/18=SELECT ALL  
PF1/13=UPDATE

Figure 1. Participant Exchange Service LOFF Browse/Reply Screen.

Note: Current deliveries and receives are highlighted

To Specify Viewing Criteria (Optional):

Enter information in the following fields of the Participant Exchange Service - LOFF Browse/Reply Screen to specify viewing criteria:

- Contra Pt: the Participant number of the broker whose letters you wish to view; optional.
- RCV/DEL: enter R to view receives or D to view deliveries; the default is R.
- Current Let: enter Y to view only deliveries that have been sent or resent on the current business day; optional.

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7.17.13 Letters of Free Funds (continued)

**Note:** If Y is entered, no other criteria can be entered.

- Status: enter one of the following; optional:
  - UNP- to view only Unprocessed letters
  - FA- to view only Funds Available letters
  - FNA - to view only Funds Not Available letters
  - PRM - to view only Prime Broker letters
  - ERR - to view only Erroneous letters
- Cntrl #: the unique control number of a specific letter; optional.

**Note:** The control number cannot be entered with other criteria.

- Account #: enter all or part of an Account Number to view those letters that match; optional.
- Trade #: enter the trade number; optional.

**Step 3** Press the 'PF1/13' key to process.

or

Press the ENTER key to verify.

**Step 4** Press any of the following:

- 'PF7/19' key to return to the Participant Exchange Service Inquiry/Reply Menu Screen.
- 'PF8/20' key to change the function.
- 'PF9/21' key to end the processing session.
- 'PF10/22' key to scroll backward.
- 'PF11/23' key to scroll forward.

**To View Details of a Specific Letter:**

**Step 5** Enter S next to the letter in the S/R/X (S/C/M) field to view its details.

**Note:** For instructions on entering R, X, C or M in this field, refer to Section 7.16, PEXR.



7.16.13 Letters of Free Funds (continued)

Step 6 Press the 'PF12/24' key. The Participant Exchange Service Letters of Free Funds Reply Screen appears (Figure 2) displaying details.

```
##### PARTICIPANT EXCHANGE SERVICE MM/DD/YY
00002199-99 INITIAL SEND DATE : HH:MM:SS
CONTROL NUMBER : INITIAL SEND DATE :
LAST DELIVERY DATE: # OF RE-DELIVERIES:

DELIVERING BKR: RECEIVING BKR:
DELIVERER ACCT#: RECEIVER ACCT #:
ACCT NAME:

QUANTITY : AMOUNT :
CUSIP : DESCRIPTION:
TRADE ID#: TRADE DATE : SETTLE DATE:
COMMENTS :

CALL NAME: PHONE NUM: - EXT:
-----
ENTER : (1=FUNDS AVAIL 2=FUNDS NOT AVAIL 3=PRIME BROKER 4=ERROR)
REASON CODE: REPLY COMMENTS:

CALL NAME: PHONE NUM: - - EXT:
PFKEYS: 7/19=MENU 8/20=END 9/21=SIGNOFF 11/23=SCRL FWD 12/24=RET
```

Figure 2. Participant Exchange Service Letters of Free Funds Reply Screen.

Note: To resend, cancel or reply to a letter, refer to section 7.16, PEXR.

Step 7 Press any of the following:

- 'PF7/19' key to return to the Participant Exchange Service Inquiry/Reply Menu Screen.
- 'PF8/20' key to change the function.
- 'PF9/21' key to end the processing session.
- 'PF10/22' key to scroll backward.
- 'PF11/23' key to scroll forward.
- 'PF12/24' key to return to the Participant Exchange Service LOFF Browse/Reply Screen.

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